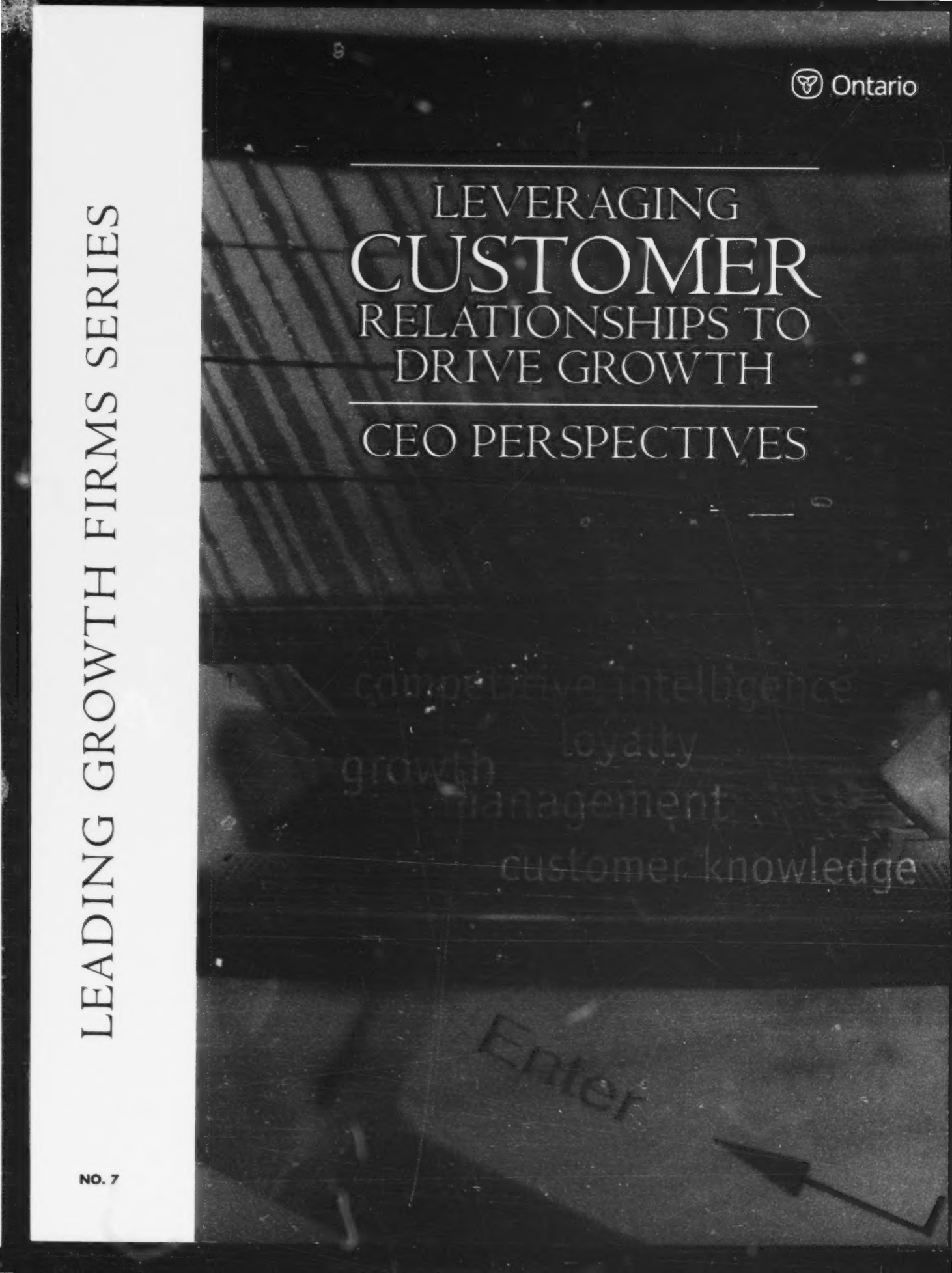
Ontario
LEVERAGING
CUSTOMER
RELATIONSHIPS TO
DRIVE GROWTH
CEO PERSPECTIVES
LEADING GROWTH FIRMS SERIES
NO. 7

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CEOs of Leading Growth Firms are constantly challenged to sustain the growth of their firms and to navigate the ups and downs of the business cycle. The continued growth of these firms is a testament to the good management strategies and practices CEOs use to run their businesses.

Over the past 18 months, the Ministry of Economic Development and Trade has published a number of reports on management strategies and tactics to promote their adoption more widely among small and medium-sized businesses in Ontario. In 2002, the Ministry will be working with corporate sponsors of the Wisdom Exchange and business schools to continue the Leading Growth Firms Series, to support the management and information needs of growth oriented firms in Ontario. The Wisdom Exchange event, which this year is being held on May 29-30, will continue to be a pivotal opportunity for CEOs of Leading Growth Firms to meet, discuss business opportunities and hear thought leaders offer perspectives on key business issues.

Our goal for the Leading Growth Firms Series is to add value to the management strategies of business leaders by providing easy access to relevant information from like-minded, successful CEOs. By researching the strategies, tactics and business models of Leading Growth Firms, these reports will stimulate ideas for other CEOs wanting to develop more flexible, adaptive firms. By raising the profile of CEOs and their firms, new ideas and strategies are being shared among firms of all sizes and stages of growth.

I would like to thank the CEOs who have given their time and input.

Robert W. Runciman, MPP
Leeds-Grenville
Minister of Economic Development and Trade

Introduction

CEOs of Ontario's leading growth firms can leverage their customer relationships to provide an ongoing competitive advantage. This report highlights that executives are best poised to gain this advantage when they adopt a systematic approach to assessing the full range of benefits and risks associated with their portfolio of customer relationships.

The benefits that should be considered include the following:

- capitalizing on the resources and facilities of customer firms to help develop new, innovative technologies;
- using customer feedback and suggestions to extend and modify product lines;
- using customers as a source of information about competitors and developing appropriate differentiation strategies;
- capitalizing on customers' growth trajectories;
- gaining in-depth knowledge of specific markets in order to provide high-quality products and services tailored to the priorities and technical requirements of these markets;
- learning from customers in order to develop more efficient and effective business practices;
- obtaining endorsements from customers and targeting customers carefully in order to maximize the value of these endorsements.

At the same time, CEOs must take into account the risks of having customers developing close ties and even becoming partners. They need to recognize and mitigate potential vulnerabilities that can arise from customers that:

- have long sales cycles;
- have the potential to harm the firm's reputation;
- tend to exploit the firm economically.

They also need to actively monitor and control their dependency on any particular customer, not only in terms of volume of sales, but also in terms of influence over the investments made in innovations.

In-depth interviews were conducted with 30 CEOs from Ontario's leading growth firms (see list on page 20) probing customer-generated benefits and liabilities, and the tactics CEOs use to maximize these benefits and mitigate the potential liabilities. The report profiles six CEOs (pages 11 to 18).

What Range of Benefits Can Customer Relationships Provide?

It has become nearly a cliché to suggest that organizations need to build relationships with customers in order to prosper. What is *not* always clear is what range of benefits firms might expect from the relationships they develop with customers in order to achieve high levels of growth. The range of benefits identified by the CEOs is discussed below. While some firms recognize and actively seek a variety of benefits, others could realize greater returns on the relationships they build by seeking a wider range of "payoffs" from selected relationships.

LOYALTY

The most commonly cited benefit of building customer relationships is ensuring that customers will be loyal, meaning that they will continue to patronize the firm. Such loyalty is often associated with a lower sales cost: serving a repeat customer is typically thought to be cheaper than attracting a new customer.

This study suggests that repeat customers are *not* always less costly to serve. The effort put into maintaining relationships is far from cost-free, and with really important customers, it is not uncommon for providers of services and products to give price breaks or other special treatment that may cut into their profit margins. The profile of A&L Computing (page 15) is a good illustration of how a company is willing to "invest" a portion of its profits to build and maintain the loyalty of a key customer.

As the CEOs interviewed for this study emphasized, close relationships with loyal customers can yield a wide range of benefits over and above repeat sales. Leaders of high-growth firms evaluate how much investment should be made in developing close relationships with specific customers by considering the other benefits described below.

KNOWLEDGE OF CUSTOMER INDUSTRIES

Customer markets vary considerably. For example, the buying behaviour and customer requirements of hospitals, instrumentation companies and consumer packaged-goods companies are likely to involve very different priorities. Collaborating closely with a successful customer in one market and understanding the priorities and technical requirements of that customer can provide invaluable knowledge about the requirements of similar firms and how they might best be approached as prospective customers. Although leading growth firms do diversify across customer markets, they also leverage the deep knowledge they have of particular customer markets in order to fuel their growth within those markets.

Firms can obtain this knowledge in various ways. They can survey their customers, they can discuss their needs with them informally, or they can observe them using products or services and draw their own conclusions. Trusted customers can be particularly valuable because they will offer unsolicited feedback. They will also offer suggestions about how to improve marketing to customers like them.

NEW PRODUCT AND SERVICE IDEAS

Growth-oriented firms often operate in sectors where imitation among competitors is widespread. The features that differentiate a firm's product/service offerings from those of its competitors are quickly copied, which reduces their competitive value. Firms therefore continuously need to find new ways to differentiate themselves in the marketplace.

Customers are often the most valuable source of these new ideas. They understand how the product or service is used in practice, and so can suggest improvements, additional features or product line extensions that are likely to be valued by other customers. The profile of FRED Systems (page 12) illustrates how customers, even those without technical expertise, can be critical to a firm seeking continuous product improvement and product innovation.

Trusted customers can be particularly valuable in new product development: they will be proactive in thinking about how their suppliers might prosper from extending their product line or entering new product markets. This better enables the growth-oriented firm to gauge demand before investing in new capabilities.

ACQUISITION OF COMPETITIVE INTELLIGENCE

In order to fully understand their market, firms need to know about the practices and plans of their competitors. Customers can be invaluable in providing this information. They often have a good understanding of the differences among competing firms, because one of their important activities as buyers is to evaluate suppliers on multiple dimensions, and because they hear about their peers' experiences with different suppliers.

A trusted customer can provide a wealth of information about a firm's competition and about how the firm itself is viewed in the market. While many customers may have knowledge about competitors, trusted customers may provide that information without being asked. They are also likely to provide it in a timely fashion and to be blunt when necessary.

IMPROVEMENT OF BUSINESS PRACTICES

In order to sustain growth, firms need to work continuously towards greater efficiency and effectiveness in the ways they operate. Leading growth firms that work closely with their customers see them as a valuable source of ideas for how they might improve their own firm. In some cases, CEOs actually

describe key executives in customer firms as mentors who are actively engaged in helping the CEO grow the firm. In other cases, CEOs pay attention to effective practices in customer firms through inobtrusive observation, to learn, for example, about effective motivational or communication mechanisms. In yet other cases, it is the customer who demands improved quality control or billing procedures. Although the firm may be reluctant to make the required changes, it will often be in better shape to work with a larger and more sophisticated customer base in the future.

ENDORSEMENTS

Choosing a supplier can be a difficult task for a customer. It is particularly difficult when there is uncertainty associated with a product or service as is the case for example, with products and services that are based on rapidly changing technology or require a high degree of customization, or when the purchase is a significant one for the customer in terms of price or strategic importance. In order to make these choices, customers often pay attention to the decisions made by other firms. Therefore, endorsements from current customers can be invaluable in attracting new customers and fueling growth.

Endorsements come in several forms. In some cases, just the knowledge that a large, established firm is a customer is enough to attract other customers as the latter will assume that a firm of that calibre would have exercised adequate due diligence before doing business with that supplier. In other cases, word-of-mouth referrals are key. Buyers in customer firms with wide personal networks and involvement in industry associations are well-positioned to send more customers to the high-growth firm. Their experience allows them to provide credible testimonials about the firm's ability to solve the customer's business needs. Sometimes, prospective customers actually want to see the supplier's work and ask current customers for demonstrations or on-site visits. Regardless of the form, though, enthusiastic endorsements from trusted customers provide growth-oriented firms with a competitive advantage in the market.

GROWTH TRAJECTORIES

Certain customers are themselves rapidly growing firms and for that reason can offer growth opportunities to a trusted supplier. Investing in a relationship with a high-growth customer can yield the same, or even a higher, level of growth than investment in relationships with multiple customers that have lower growth rates. Developing systems to handle sales, production and distribution for a large-volume customer may result in having the capacity and know-how to take on larger customers in the future. In addition, working closely with an expanding customer may reduce a firm's own expansion costs. For example, following customers into new geographic markets may enable the firm to expand into foreign markets with minimal market development costs.

CEOs point out that growing with a high-growth customer is most successful when the customer's growth trajectory is consistent with their own. This may mean that if the customer is targeting a new

market in order to grow, the demands placed on the firm may either be satisfied with its existing skills or responded to by the development of new skills consistent with the firm's own strategic priorities. It may also mean that the pace at which a customer wishes to grow fits the firm: it neither stalls nor overwhelms the firm's capacity to deliver.

INFRASTRUCTURE FOR INNOVATION

For technology-based firms, innovation (the successful development of new products or services), often requires an infrastructure that the innovating firm does not have. For example, a firm may have a highly skilled group of engineers and a core technology, but may need a concrete application and test site in order to commercialize it. Customers that need the technology to pursue their own strategic objectives and believe in the innovative capabilities of the firm are often more than willing to provide a development platform, in return for early access to the technology and influence over its development.

BUILDING RELATIONSHIPS TO CAPTURE BENEFITS

Building relationships can mean many things, but among the tactics that appear to be most effective are:

- getting to know key customers personally;
- communicating with them frequently; and
- being extraordinarily responsive in helping customers to solve problems.

The profile of Archetype Press (page 17) indicates how a company can gain a deep understanding of the needs and motives of selected customers, and find distinctive ways of helping these customers achieve their goals. It also illustrates how developing meaningful relationships with customers takes considerable effort on the part of the growing firm.

To make the work of developing a particular relationship worthwhile, a substantial set of benefits must result from building relationships. Since none of these benefits will *automatically* materialize and few relationships will yield *all* these benefits, CEOs of leading growth firms continually assess the potential costs and benefits of investing further in specific relationships. The Archetype Press profile illustrates one approach to this kind of relationship assessment. In general, CEOs who attain the greatest benefits from their customers are those who:

- invest in relationships selectively and in proportion to their potential value;
- are explicitly aware of what they hope to gain from the relationships they build; and
- recognize when the returns from a particular relationship start to decrease.

Effective Practices for Managing Customers

Despite the diverse types of non-financial but tangible benefits that customers can provide, CEOs of Ontario's leading growth firms are very cognizant of the risks that are associated with close customer relationships. Accordingly, they use well-developed tactics to mitigate these risks. The four major types of risk they identify, as well as the tactics they use to guard against them, are described below.

CUSTOMERS THAT DOMINATE SALES

Personalized relationships can be developed to a larger extent when a firm has a small number of customers, but many CEOs are concerned about becoming overly dependent on only a few customers. As the profile of KBX Industries (page 11) indicates, growing firms sometimes have to limit the amount of business they do with very good customers, in order to guard against becoming overly dependent on any one customer. The loss of a customer who accounts for a large proportion of revenue either because of financial problems or because of a decision to do business with a competitor, immediately threatens the firm's cash flow and financial stability. CEOs try to minimize this risk by using the following tactics:

- ✔ Monitor the proportion of total sales revenue that is obtained from each customer and from each customer market so they know when and where the firm is vulnerable. For example, they arrange to have their accountant signal when revenue from a particular customer exceeds 10% of total annual sales revenue.
- ✔ Grow the size of their customer base so that there is less impact on the firm if a significant customer leaves.
- ✔ Diversify across customer markets, so that a downturn in any one customer market will have less impact on the firm.
- ✔ Develop an effective sales strategy that is not overly dependent on the CEO. Although many customers like dealing personally with the CEO, a dependence on the sales ability of one person limits the extent to which they can grow and diversify their customer base.

CUSTOMERS THAT DOMINATE PRODUCT DEVELOPMENT

Some firms, particularly those in technology-based sectors, have customers that try to dominate product development. In many of these cases, the customer is a huge, established company that relies

heavily on the innovative capabilities of the smaller firm to bring a new product to market. While having such a customer can provide considerable growth opportunities, CEOs of leading growth firms are often wary of any customer having too great an influence over the direction of their product development. Several tactics used by CEOs to retain such customers while preserving their own independence and autonomy are:

- ✔ Keeping the core technology to themselves. Customers can both pay a retainer and pay for specific development based on engineering time, but the firm can choose to spend its own money on developing the generic, core technology.
- ✔ Developing relationships with multiple, but equally sized, customers who have similar requirements, so that no one customer has an over-riding influence.
- ✔ Developing a user community that collectively determines a prioritized set of requirements the firm should focus on. This not only helps to reduce the influence of any single customer, but also eases the administrative burden on the firm by consolidating customer requests for enhancements or changes.
- ✔ Establishing a dominant customer in three or four distinct product markets, which reduces the vulnerability of the firm.

CUSTOMERS WITH LONG SALES CYCLES

Leading growth firms that sell expensive products and services, especially those that sell in customized product markets, can face long sales cycles. Getting the contract is often more difficult and more time-consuming than doing the contract, and in these situations CEOs are concerned about having enough projects "in the pipeline." There is a positive aspect to this, as it forces CEO and key managers in the firm to scan the environment constantly for new opportunities. At the same time it can be frustrating, firstly because of its impact on cash flow, and secondly because it may divert valuable resources away from satisfying current paying customers. The profile of Aiolos Engineering (page 16) illustrates the challenges that are associated with facing long sales cycles.

CEOs of leading growth firms use tactics to lessen the risks associated with long sales cycles, such as:

- ✔ Increasing the switching costs of their customers. The objective here is to make it more costly and risky for a customer to switch to a competing supplier. Leading growth firms increase customer switching costs by a variety of techniques, such as having greater expertise in customer industries than their competitors, increasing the on-going service component of a purchase,

providing further opportunities for repeat or upgrade sales, and developing preferred supplier status relationships with those customers who want to gain efficiencies through supplier consolidation.

- ✔ Developing multiple contacts within a customer firm. Leading growth firms pay attention to developing personal relationships with buyers in customer firms. However, there is often a high turnover among these buyers, and sales can decrease when a buyer leaves or is transferred and another buyer, who may be used to doing business with a competitor, takes his or her place. To guard against this, it is important to establish multiple relationships within a customer firm.
- ✔ Customizing the "face" of sales for each customer. Leading growth firms recognize that compatibility between buyers and sellers is an important element of sales, and they match the seller with the buyer. In some cases, this matching is done on the basis of occupational groups. Firms have found, for example, that engineers sell most effectively to engineers, and health care professionals to health care professionals, because of the shared norms and values within these professions. In other cases, the matching is done on the basis of prior industry experience. For example, sales representatives with experience in the public sector are better able to understand purchasing behaviour in this sector, whereas sales representatives with experience in financial services may be better suited for sales to banks and insurance companies.

CUSTOMERS THAT HARM THE FIRM'S REPUTATION

Customers are a vital component of how a firm conveys its reputation to the market. When making a purchasing decision, prospective customers tend to rely heavily on word-of-mouth referrals from satisfied customers and on tangible examples of high quality work that the firm has done previously. The CEOs of leading growth firms therefore are wary of customers that may harm their reputation by using the firm's product or service in ways that might cast it in an unfavourable light.

One way this can happen is when a customer requests that the firm provide a cheaper or inferior version of its core product. It can also happen when a customer's organization does not implement a product or service properly. For example, a customer that purchased an automated system may be using only a subset of its capabilities because the firm failed to allocate sufficient resources to training. In such cases the customer might actually be satisfied with the purchase, but would not be able to provide an endorsement that reflects its true potential value. CEOs mitigate these risks by using the following tactics:

- ✔ Refuse to engineer products at a lower price point if there is any potential that these will reflect poorly on the firm. Recognize that all versions of products and services can be highly visible in the market. Prospective customers will remember seeing an inferior version and may never learn that it was produced for a special request.
- ✔ Bundle adequate services with the product, especially training and operating procedures, to ensure that it operates effectively on customer sites.
- ✔ Choose reference customers carefully. Look for customers that are not only satisfied with their purchase but can also provide a showcase for its effective use.

CUSTOMERS THAT EXPLOIT THE FIRM ECONOMICALLY

Some customers use their economic clout to negotiate unfavourable prices or payment terms. While these customers can be high-volume buyers, the sales volume advantage is often offset by cash flow difficulties. This is troublesome for most growth-oriented firms, as they require cash to maintain their growth, and it is particularly troublesome for high-growth firms in industries with low margins. The key word that came up again and again in the interviews was "reasonable." These are the customers that want to develop a long-term relationship with the firm. Doing business with reasonable customers contributes to high growth rates. The profile of Biochem Environmental Solutions (page 13) indicates that, even for firms that are determined to have a large and diverse customers base, certain customers and even certain industries may have to be avoided if their payment practices leave growing firms struggling to cover cash flow needs.

Tactics used to avoid economic exploitation include:

- ✔ Being wary of including only large, established companies in the customer base and recognizing that large firms will exercise their economic clout. Some billion-dollar companies routinely delay their payments 60 or 90 days, or will return large shipments of unsold goods.
- ✔ Providing preferential treatment or purchase incentives to customers who pay on time.
- ✔ When considering doing a large volume of business with a new customer, exercising due diligence, in the same way that customers investigate possible suppliers. Using business networks to learn more about their treatment of suppliers.
- ✔ Sticking with those customers that understand the firm's business realities, and avoiding those that want to squeeze the firm's margins.

CEO Perspectives

Establishing and sustaining a high level of growth requires continuous and focused attention on a firm's relationships with its customers. The CEOs of high-growth firms leverage their customers to provide advantages in the market. At the same time, however, they recognize that not all customers can or will provide such advantages and that some customers can actually prove to be liabilities.

This means that leading and managing growth effectively requires a delicate balance. For example, firms need to rely on customer infrastructure, applications and testing in order to develop new technology while resisting undue influence of a single customer on the direction of product development. They need to rely on customer endorsements for attracting prospective customers but must be wary of customers sending negative messages to the market. They need to develop and leverage in-depth knowledge of customer markets, while at the same time diversifying across customer markets in order to be less economically vulnerable.

Balancing these requirements simultaneously, and on a continuous basis, is a key leadership challenge. The following profiles illustrate how six CEOs of leading growth firms from different sectors have faced this challenge directly and successfully.

Choosing Clients That Fit the Company

Keith Kaye, President

KBX Industries Inc.
Age of firm: 7 years
Full-time employment 2000: 36
Sales 2000: $4,400,000

Located in Hamilton Ontario, KBX Industries repairs and maintains railway cars. KBX has worked to become a "one stop shop" able to service virtually any kind of railcar for its clients.

KBX has witnessed a significant transition in its customer markets away from a transactional, price-based approach to sourcing repairs and service toward a relationship-based model. The company's founder, Keith Kaye states: "Things in this business seem to change rapidly now. Five years ago, the practice among all the customers that we dealt with was to employ as many shops as possible and

you'd just go around in circles. From experience, I believe, the industry discovered that this didn't necessarily lead to a high-quality product at the end of the day." Especially because of the change in the industry's approach to selecting providers of service and repair, KBX has emphasized not only being a high-quality shop, but also *being seen* as a high-quality shop.

Kaye emphasizes two factors that convey this quality image. The first is certification: KBX is certified to complete repairs and/or recondition tank cars, freight cars and rail car trucks. The second is having a "blue chip" client list that includes such recognized names as Babcock & Wilcox, Bombardier Capital Rail Inc., CNR, Dofasco Inc., First Union, GATX, GLNX Corp., GM Diesel, National Steel Car, Siemens Westinghouse and Union Pacific.

Being able to name such blue chip clients in conversation and on the company website gives KBX an advantage it values when it approaches new clients. Even so, KBX exercises caution when it chooses to do business with new customers: some clients "fit" with the company's existing resources and skills much better than others. Kaye puts it as follows: "Everything is about revenue. However, there is "bad" revenue and there is "good" revenue. For good revenue, a company shouldn't have to make demands that may put a strain on its labour force. Good revenue has a variety of skill requirements that matches the variety of skills you offer. So there are some customers out there that I couldn't entertain."

And even among its best customers, KBX exercises a certain caution. It is careful, in particular, not to let the importance of maintaining its relationship with prestigious clients whose requirements match the company's skill-set outweigh the importance of maintaining a diversified revenue base.

Listening to and Learning From Customers

John Kirkpatrick, President

FRED Systems Ltd.
Age of firm: 8 years
Full-time employment 2000: 16
Sales 2000: $3,336,000

FRED Systems Ltd. was founded in 1993 and has established itself as the world leader in the development of Digital Signage Networks™ software, products and services. Based in Waterloo, FRED developed the first DSN processor software that is today licensed for a variety of applications worldwide. FRED stands for "Foto Realistic Electronic Delivery." The company's innovative technology provides its customers with highly flexible and customizable digital signage.

Although the company is advanced technologically, it believes in making its products, and their value to customers, easy to understand. John Kirkpatrick, co-founder and current President of the company, notes that the term FRED was coined so that customers could easily remember and readily identify with the company. "People remember it. And it is unbelievable how much fun top executives have with this product called FRED versus if it was called some scientific name," he adds.

Despite the fact that his customers may not have technical expertise, Kirkpatrick clearly recognizes that they have played a critical role in the evolution of the products and services FRED sells, and therefore in the success of the company. He acknowledges: "Really, what the product is today, and what the company is today, is in part a combination of all kinds of input from customers. We've added value to our product by adding features at the request of our customers right from the beginning."

He is also articulate about how the company has benefited from customer insights about ways to improve business practices, such as how to deliver their services. Says Kirkpatrick: "The method by which we deliver now is different than the one we used originally. And the idea for FRED Express actually came from a customer who said, 'Instead of pressing a DVD disc and sending material by FEDEX, you can just "FREDEX" it and do it electronically.' And now we do it in five minutes instead of overnight, and we do it a lot cheaper."

This leading growth firm clearly requires a technological advantage to succeed. But it also benefits because it recognizes that even customers who are at a lower technology level can teach it valuable lessons about how to do business more efficiently and effectively.

Differentiating and Defending

Joanne Papari, President

Biochem Environmental Solutions Inc.
Age of firm: 5 years
Full-time employment 2000: 21
Sales 2000: $1,800,000

Biochem Environmental Solutions, based in Concord, manufactures and services bathroom hygiene systems for commercial, institutional and industrial customers. The company got its start in 1996, when founder Joanne Papari recognized that no-one in the bathroom hygiene market was providing products with matching fragrances. Papari believed that existing offerings – in terms of both

products and services – simply weren't good enough. She believed that there were customers who would agree that they needed not only better smelling products, but safer products, and provide a more personable service. The growth of the company, and the fact that 70 percent of its customers have been won over from competitors, suggests she was right in thinking that a differentiated product/service offering could win market share for the new company.

As a small upstart taking market share away from some large, established competitors, Biochem Environmental Solutions has had to find ways not only of differentiating itself but also of defending itself from a range of competitive tactics. Certain competitors have tried to prevent Biochem from growing as a force in the industry by copying the firm's offerings to the extent that patent protections permit. Some have tried to position the new firm in customers' eyes as financially unstable.

Certain large corporations took a chance with the young company, and their patronage both signalled that Biochem had a good product/service offering, and that it was a viable supplier. Says Papari: "At the beginning I would say there were two or three customers that were almost like a landmark in the establishment and expansion of the company because of the names they carried. And our customers played a big role because even afterwards I think they supported us when competitors suggested we were a shaky young company. I have to say," she emphasizes, "that building relationships with the customer is very, very important because customers will be forgiving. Especially if they find out that the problem they are having is not due to a mistake on our part. They'll weather it with you, they'll support you and they will try to help you find out what – or who – the real cause of the problem is."

As much as Papari values the contributions customers have made to defending the firm, she acknowledges that there can be liabilities associated with certain customers as well. One way in which customers could undermine the firm is by proving to be fickle. The company has from the start had a built in defence against over-reliance on particular customers: "One thing that we set as a goal from the beginning was to make sure that we have a big base of customers. So we're not going to be a small company with very few customers, which might really be detrimental to us. And right now we have over 1,200 customers." Customers can also undermine the firm if their payment practices aren't timely. Papari indicates that there is one industry that she has chosen to avoid selling to, simply because the prevailing industry practice is to delay many weeks before paying bills to suppliers. In a very few cases, the company also avoids selling to clients when it seems likely that existing problems in the client's restrooms will mean that Biochem's products and services won't *seem* to be effective. The company defends its high-quality reputation by serving clients whose installations will be a form of "good advertising" for Biochem Environmental Solutions.

Cultivating Close Relationships

Alexander Yuan, President

A&L Computer Software Ltd.
Age of firm: 19 years
Full-time employment 2000: 34
Sales 2000: $14,000,000

How do you succeed in business without really filing? A&L Computing Software Ltd. of Richmond Hill sells document storage and retrieval software that helps its clients in multiple sectors do just that. The company's flagship product since 1985, the A&L Medical System, was designed and developed hand-in-hand with doctors and medical staff. It meets the needs of medical offices. And with over 5,000 registered physicians as clients, it has proven to be one of the most successful programs in the medical field. A&L's other leading product, the Document Console, is a document-imaging program that takes information in any form and translates it into a computer image. It, too, is serving the needs of an ever-expanding group of users.

However, growing companies like A&L can't simply choose to build good products for promising markets and then harvest the revenue: they also have to build good relationships with specific clients, and then systematically harvest the rewards that such relationships can bring. Alexander Yuan, President of A&L, has strategically invested in the relationships that are crucial to success in the sectors he serves. For example, one important client is the association that trains the future users of his product: "Because we're in the medical business we're heavily involved with the Ontario College of Medical Secretaries. Those secretaries are the people who are actually going to use the product. We want to know how the colleges carry out their teaching, and we provide them with our software program." Yuan stresses that, as in all good relationships, reciprocity and flexibility are critical.

When testing out new product features, Yuan also finds ways of making certain relationships work to provide mutual benefits: "A lot of our close clients do not always have the money to buy the latest technological products. In the case of wireless technology, for example, certain clients are willing to serve as test sites. They offer to try our new technology in their offices and give us feedback. That helps us for testing, since we don't run a medical office. They do – that's their livelihood. Their feedback tells us what will affect other people in the same industry. We're actually doing each other a favour, because they get to use a product they otherwise might not be able to afford, and we get the kind of detailed feedback that is critical when developing new products."

The relationships Yuan has built pay off in multiple ways. For example, he finds that with good clients, "if anybody says something negative about our company, close clients quickly share that information with us. They *want* us to be aware of it. It works in their favour. If our company continues to grow, and grow better, it's good for them as well as for us."

Leveraging Assets to Smooth Sales Cycles

Adrian Hirsch, President

Aiolos Engineering Corporation
Age of firm: 7 years
Full-time employment 2000: 58
Sales 2000: $12,326,000

Toronto-based Aiolos Engineering Corporation provides engineering and turnkey design/supply solutions for specialized test facilities and associated systems for the aerospace, automotive and industrial communities throughout the world. Its client base contains virtually all of the world's leading automotive, aerospace and petroleum companies. Typically, Aiolos's clients are those who are not satisfied with a straightforward replication of an existing facility design: for these clients, each new facility or existing facility upgrade is unique.

The complexity and the size of the projects Aiolos takes on entail two major challenges to achieving growth: long sales cycles and highly uneven revenue streams. Aiolos is the kind of project-oriented company where major contracts are sought months or even several years in advance. As a result, it can take a number of years before the revenues associated with a sales effort are realized. This means that the company has to deal with peaks and valleys in revenues.

Aiolos has been successful in sustaining high growth because it leverages its distinctive competencies in ways that help it secure future contracts effectively and efficiently. For example, the company often wins out against competitors because of its distinctive mix of in-house skills. Executives in the company believe Aiolos is exceptionally good at interpreting user requirements and translating them into facilities. They feel the reason the firm is exceptionally good at this difficult job is that it is one of the only competitors in its field that has all the engineering disciplines under one roof.

Another example of how Aiolos leverages its distinctive competencies is revealed in the way that it recently managed to win a project from a new French client. Competitors in the field recognize that

France is a very difficult market to break into for firms that are not themselves based in that country. Yet Aiolos recently managed to do so by assigning all its French-speaking sales and marketing personnel to working on the proposal. Because their main competitor was American, Aiolos knew it had an advantage and used it strategically and successfully.

This tactic was geared not only to out-maneuvering the competition, but also to laying the ground work for later sales in the same market. On the strength of its bid on this first project, both the client and an affiliate company have already asked Aiolos to visit some of their facilities to see whether the firm could also do business with some of their other R&D departments.

Another asset that Aiolos seeks to leverage is its existing relationships with customers. The solid relationships Aiolos has with individuals at key customer organizations form the basis for a new plan the company is putting into place. Its strategy is designed to reduce reliance on the types of projects that lead to peaks and valleys in revenues. To stabilize the revenue stream, the firm is moving toward the maintenance and operation of facilities. It began by talking to existing customers. Last year, senior executives met with a client organization and told them about Aiolos' new plan. By the next week, the company had an e-mail from the customer requesting that Aiolos make them a proposal to operate some of their facilities. By building on existing customer relationships, the company is more easily able to implement new strategies.

Managing Customers While Serving Them Well

Mark Campbell, President

ARCHETYPE PRESS INC.
Age of firm: 5 years
Full-time employment 2000: 25
Sales 2000: $2,900,000

Archetype Press of Markham is a wholesaler of commercial printing services. Unlike traditional commercial printing facilities, it doesn't buy paper and it doesn't do any binding: it just sells press time. Mark Campbell, the President of Archetype, also runs another company that is a print brokerage. He set up Archetype as a wholesaler in order to be able to minimize the risk he had incurred by purchasing the capital intensive machinery required to provide printing services. Under his business model, Archetype sells printing services both to Campbell's own print brokerage firm *and* to that firm's competitors.

Campbell has taken the interesting tactic of selling shares in Archetype to a select group of the print brokers who are his customers. This move has accomplished two things: it has helped provide equity-holding customers with the incentive to send their work to Archetype rather than to its rivals, which helps ensure that the expensive equipment is steadily at work earning revenue for both Campbell *and* those customers. It also helps the customers compete for business. Says Campbell: "We at Archetype differentiate ourselves from the rest of the pack when we say come on in, you write me a cheque for x and you get x percentage of the business. The brokers who buy equity don't get any preferential treatment in terms of pricing, or even availability on the press. But they do get the opportunity to say to *their* customers that *they* own some of the bricks and mortar in a printing service. As a result, those brokers can compete with big commercial shops to get the annual reports and the prestigious business. So what we're trying to do at Archetype is build our customers' business."

While Campbell has been inventing this win-win method of "binding" customers to Archetype, he has also been refining his skills at choosing which customers *not* to be committed to, and how to deal with those customers he does value. He recounts: "We recently took a good look at our customers. We used categories: 'A,' 'B' and 'C,' and we decided that there are some 'A' customers who are strategically good customers in the long term. As for the 'C' customers, we're going to still make ourselves available, but we're not going to deny an 'A' customer to get on the press for a 'C' customer. And we're going to be somewhat ruthless in our approach."

Campbell has put in place a plan to stimulate both volume of sales and more timely cash flow among his 'A' customers. "We went to them and said, 'We're going to carve your business into so many thousand-dollar chunks, so when you hit that many thousand dollars, if you paid *all* those invoices that make up that chunk in 15 days, I'll write you a cheque for x% back.' So now they prioritize where they place the work. They come to us first. It helps our business significantly in terms of how we relate to our customers. I mean you're selling to them every single time you do a job, you've got to make sure that when they walk away they're happy about what they've received in terms of value and quality. But with that said, this system just changed the attitudes and culture."

When asked how he selects 'A' customers and those brokers who are invited to hold equity in Archetype, Campbell replies that he looks for those who, over time, have proven themselves to be "decent people to deal with, morally correct."

Recommended Reading

Christensen, Clayton M. *The Innovator's Dilemma.* New York: HarperBusiness, 2000.

This book argues that companies need to learn when to listen to their customers, because sometimes focusing on the needs of current customers leads to insufficient innovation, which can limit possibilities for future growth.

McGrath, Rita Gunther and MacMillan, Ian. *The Entrepreneurial Mindset.* Boston, MA: Harvard University Press, 2000.

This book suggests practical frameworks and tactics for collecting and assessing information from current and potential customers and using it to develop new strategies in fast-paced business environments.

Rust, Roland, Zeithaml, Valerie and Lemon, Katherine. *Driving Customer Equity: How Customer Lifetime Value is Reshaping Corporate Strategy.* New York: The Free Press, 2000.

This book makes the case that firms should manage their customer equity, arguing that the value of the firm lies not just in its brands or products, but in its customers. It shows how to link customer satisfaction directly to profitability.

Leading Growth Firms Interviewed

A wide variety of firms participated in this research study. The average characteristics of the firms are: Age – 10 years, Number of Employees – 70, Annual Sales – $9.5 million. The Ministry would like to thank the following firms:

Company	Product or Service	Website
A&L Computer Software Ltd.	Document imaging & medical practice software	www.anl.com
Acclaim-Sba Disability Management Inc.	Disability management	www.acclaim-sba.com
Adcom Videoconferencing	Videoconferencing equipment services	www.adcom.ca
Admiral Inc.	Environmentally friendly cleaning products	www.admiral-inc.com
Agile Systems Inc.	Electronic control systems	www.agilesys.com
Aiolos Engineering Corporation	Engineering & design of specialized test facilities	www.aiolos.com
Almac Conveyor Co. Ltd.	Material handling & automation equipment	www.almac.com
Archetype Press Inc.	Commercial printing	www.mark@archetype.on.ca
Biochem Environmental Solutions Inc.	Industrial hygiene products & services	www.biochemenvironmental.com
C J C Bottling Ltd.	Bottled water	www.cjcbottling.com
Changepoint Corporation	Software for professional service firms	www.changepoint.com
Comtek Advanced Structures Ltd.	Aircraft parts repair, design & manufacture	www.comtekadvanced.com
D & G Panel and Harness Inc.	Hydraulic equipment	www.dgpanel.on.ca
FRED Systems Limited	Digital signage networks development	www.fredxpress.com
GAO Research Inc.	Communications software	www.gaoresearch.com
InQuent Technologies Inc.	Web hosting	www.inquent.com
inSITE Communications Corp.	Internet strategy & design	www.insitecom.com
Jobshark Corporation	On-line hiring & recruitment	www.jobshark.com
KBX Industries Inc.	Railcar maintenance & repair	www.kbx.com
Kesmac Inc.	Forklift & mowers	www.kesmac.com
KitCare Corporation	Medical equipment & first-aid products	www.kitcarecorp.com
Mellow Walk Footwear Inc.	Safety, orthopedic & women's footwear	www.mellowwalk@primus.ca
nurun Inc.	Internet strategy & design	www.nurun.com
Precidio Inc.	Acrylic ware & promotional products	www.precidio.com
Robinson Solutions Inc.	Cleaning services & supplies	www.robinsonintl.com
Schleese Saddlery Service Ltd.	Saddles & equine accessories	www.schleese.com
Septimatech Group Inc.	Tooling for liquid packaging industry	www.septimatech.com
Software Metrics Inc.	Printing & cost management software	www.metrics.com
Stott Pilates	Exercise studio, equipment sales and certification	www.stottpilates.com
Tiger Drylac Canada Inc.	Powdered coatings	www.tigerdrylaccanada.com
Willow Publishing Co.	Directories & guides	www.willowpublishing.com

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